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BRENDA MINES LTD.

ANNUAL REPORT 1969



BRENDA MINES LTD.

(Incorporated under the Companies Act, British Columbia)

copper-molybdenum

REGISTERED OFFICE: The Mine Office, Brenda Mines Road, Out of Peachland, B.C.

DIRECTORS

Bernard O. Brynelsen	-	-	-	-	-	-	-	-	-	Vancouver, B.C.
Mervin E. Davis	-	-	-	-	-	-	-	-	-	Vancouver, B.C.
John A. Hall	-	-	-	-	-	-	-	-	-	Toronto, Ont.
Hidemasa Kubo	-	-	-	-	-	-	-	-	-	Tokyo, Japan
Morris M. Menzies	-	-	-	-	-	-	-	-	-	Vancouver, B.C.
Shusuke Mima	-	-	-	-	-	-	-	-	-	Vancouver, B.C.
Richard V. Porritt	-	-	-	-	-	-	-	-	-	Toronto, Ont.
Alfred Powis	-	-	-	-	-	-	-	-	-	Toronto, Ont.
William S. Row	-	-	-	-	-	-	-	-	-	Toronto, Ont.

OFFICERS

President	-	-	-	-	-	-	-	-	-	Bernard O. Brynelsen
Executive Vice-President	-	-	-	-	-	-	-	-	-	Richard V. Porritt
Vice-President—Finance	-	-	-	-	-	-	-	-	-	Mervin E. Davis
General Manager	-	-	-	-	-	-	-	-	-	John A. Hall
Secretary	-	-	-	-	-	-	-	-	-	W. Harrison

MINE OFFICE: P.O. Box 420, Peachland, B.C., G. H. Montgomery, Manager.

SOLICITORS: Davis & Company, 14th floor, 1030 West Georgia Street, Vancouver 5.

AUDITORS: Peat, Marwick, Mitchell & Co., 900 West Hastings Street, Vancouver 1.

TRANSFER AGENT AND REGISTRAR: Canada Permanent Trust Company,
455 Granville Street, Vancouver;
1901 Yonge Street, Toronto.

ANNUAL MEETING: April 29, 1970, 2.30 p.m., Hotel Vancouver, Vancouver, B.C.

DIRECTORS' REPORT TO THE SHAREHOLDERS

It is with a great deal of pleasure that your Directors announce the start of production at Brenda Mines. Recovery and grade are satisfactory, but it will take several months to train personnel and reach maximum efficiency and output.

Due to construction strikes, the target date for start-up was delayed by at least three months. This has been extremely costly to the Brenda shareholders due to an increase in capital expense and the loss of production during a period of high copper prices. The final figures are not complete, however, it is estimated the original figure of 60 million dollars will not be exceeded by more than 5%.

Considering the delays, it is a tribute to management that they were able to complete and contain this tremendous project the way they have. It was through the efforts of a great number of people, but special acknowledgement should be expressed to Mr. John Hall, your General Manager; Mr. Gordon Montgomery, Mine Manager; Mr. Frank Koch, Project Manager; Mr. Lyall Ames formerly General Superintendent of Mills and Mr. Bruce Wallace, Assistant General Superintendent of Mills, Noranda Mines Limited, for their untiring efforts in the face of many difficulties.

According to Brenda's financing agreement, which was detailed in the last annual report, if Noranda Mines made any additional advances over the total 60 million dollars, they would receive 4 fully paid shares and income bonds in the principal amount of \$100 for each additional \$100 advanced to the Company. This could have involved a total of 600,000 shares if Brenda had needed up to \$15,000,000 in excess of the \$60,000,000. It is now known the overrun will be nominal and any additional shares issued will not greatly affect the share structure.

The recommendations of the White Paper On Taxation as presented in relation to mining, if in effect in 1966, would have caused serious consequences with Brenda's financing. The result of a recalculation of our original feasibility study discloses that under the White Paper's system the cash flow would have been reduced by 30 million dollars. Hence, implementation would probably have prevented financing and if so, your property would not be in production today.

The White Paper as presented and if implemented would also seriously impede the financing of any new, large tonnage, low grade mining operation. The economic influence of any new mining operation is so great in the area where it is located, and particularly to Canada, that the present tax incentives must at the very least be maintained to support a strong and healthy economy.

Since 1948, under the present regulations and incentives, the mining industry in Canada has attained a tenfold increase in the value of mineral production to an annual volume of 4½ billion dollars. The resultant benefits, which include 1½ billion dollars contribution to Canada's foreign exchange earnings, are probably greater than in any other country. It would be foolish to **destroy** the foundation upon which this great industry has been built.

The position for the shareholders is favourable since:—

- (1) Your company is coming into production with a reasonable total of outstanding and issued shares. The total shares issued will be 4,190,000 plus, if any, a modest number for the overrun in construction costs. In comparison to the financing effected by other companies, your equity position has been well protected.
- (2) Production has started, and Brenda will qualify for the three-year tax free period, guaranteed by the Canadian Government until 1974.
- (3) Complete financing was done when interest rates were lower than at present.
- (4) Brenda is coming into production at a time when the overseas copper price is high. Although it is not expected this price will be maintained, it is predicted that it will be higher than the price used in the feasibility report. Sales contracts for copper concentrate are with Nippon Mining Company for five years at the overseas price.

Regarding molybdenum, the new mine production capacity coming available this year will ensure adequate future supplies for consumption which continues to grow at 7% annually. The majority of Brenda's production has been contracted forward for five years through our sales agent, Noranda Sales Corporation. The price of molybdenum has increased 10 cents per pound over the feasibility figure.

- (5) Although not yet in full production, sufficient material has gone through the mill to indicate that grade, metal recovery and tonnage throughput will be well within the target range of the feasibility report.

The Board of Directors feel very proud of the accomplishments to date, and are very happy to report this large mining operation is now underway. On behalf of the Board of Directors and of myself, I would like to acknowledge with a great deal of thanks, the tremendous co-operation of the senior staffs of Brenda, Noranda Mines Limited, The Bank of Nova Scotia, Nippon Mining Co. Ltd. and Mitsui & Co. Ltd.

Submitted on behalf of the Board,



President.

February 2, 1970.

GENERAL MANAGER'S REPORT

To the President and Directors:

The following report summarizes mine development and construction operations for the year 1969.

OPEN PIT

	Tons 1969	Tons to Date
Waste Stripping	5,500,000	8,734,000
Ore Broken	1,566,000	1,566,000

Open pit preparations were completed. The necessary mining and haulage equipment was in operation, and the operating and maintenance personnel assembled in readiness for full scale ore production.

No work was done toward extending the open pit ore reserves of 177,000,000 tons grading 0.183% copper and 0.049% molybdenum.

CONSTRUCTION

The construction program was essentially complete at the year end except for some electrical and instrument installation, mainly in the concentrator. All service facilities were in operation and the crushing and screening plants had been well tested. Also, tune-up operation of one of the four grinding and bulk flotation sections in the concentrator had been under way since early December. The other three sections will become available in January. These, together with the copper-molybdenum separation circuit, will be started up as operators are trained and the operating and metallurgical procedures verified. The leaching circuit for molybdenum concentrate purification will be the last to start.

The development of a fresh water supply for the operation and the preparation of a storage area, for mill tailings and recirculation of mill water, were difficult and costly elements of the project. The dams involved required the delivery of more than 3,000,000 tons of waste rock from the open pit, some five miles distant. Both facilities were in operation at year end.

Due to a succession of strikes and unrest among the construction trades, completion of the project has been delayed at least three months with the result that the start-up of operations must be carried out under difficult winter conditions. The final effect of these labour disturbances will be a substantial increase in the cost of the project.

Expenditures made and committed were \$53.7 million to December 31, 1969, and the estimate of final cost is \$62.8 million, or 4.7 per cent over the \$60 million target.

Respectfully submitted,

JOHN A. HALL,
General Manager.

January 22, 1970.

STATEMENT OF DEVELOPMENT AND PRE-PRODUCTION EXPENDITURE

YEAR ENDED DECEMBER 31, 1969

	Balance at beginning of year	Expenditure during year	Balance at end of year
Prospecting, exploration and preliminary development	\$1,987,035		\$ 1,987,035
Mine preparation	2,119,907	\$1,806,630	3,926,537
Administration	567,865	2,670,431	3,238,296
Interest (net)	207,617	1,099,736	1,307,353
	<u>\$4,882,424</u>	<u>\$5,576,797</u>	<u>\$10,459,221</u>

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

YEAR ENDED DECEMBER 31, 1969

(With comparative figures for 1968)

FUNDS PROVIDED:

	1969	1968
Notes and mortgages payable	\$ —	\$ 825,581
7.5% first mortgage bonds	21,000,000	—
7.3% second mortgage bonds	7,497,912	—
7.2% secured income bonds	2,535,000	22,182,000
Refundable power deposit — portion currently receivable	250,000	—
Interest receivable	42,000	—
Total funds provided	<u>31,324,912</u>	<u>23,007,581</u>

FUNDS USED:

Refundable power deposit	—	550,000
Acquisition of mineral claims	—	78,400
Reduction of notes and mortgages payable	688,671	—
Buildings, equipment and related facilities	20,095,346	25,448,178
Residential land and buildings	28,407	115,292
Development and pre-production expenditure	5,196,235	1,950,487
Total funds used	<u>26,008,659</u>	<u>28,142,357</u>
Increase (decrease) in working capital	5,316,253	(5,134,776)
Working capital deficiency at beginning of year	5,870,110	735,334
Working capital deficiency at end of year	<u>\$ 553,857</u>	<u>\$ 5,870,110</u>

(See accompanying notes to financial statements.)

BRENDA MINES LTD.

BALANCE SHEET — DECEMBER 31, 1969 (With comparative figures for 1968)

ASSETS

	1969	1968 (Restated)
CURRENT ASSETS:		
Cash and short-term bank deposits	\$ 2,975,887	\$ —
Accounts receivable	804,780	173,141
Total current assets	3,780,667	173,141
Refundable power deposit (Note 1)	2,000,000	2,000,000
Less amount due within one year	250,000	—
	1,750,000	2,000,000
PROPERTY, PLANT AND EQUIPMENT, AT COST (Note 2):		
Mineral claims and leases	334,387	334,387
Buildings, equipment and related facilities	47,456,996	27,361,650
Residential land and buildings	220,242	191,835
	48,011,625	27,887,872
DEFERRED CHARGES:		
Development and pre-production expenditure, per accompanying statement (Note 2)	10,459,221	4,882,424
Financing expense (Note 3)	4,895,000	3,648,645
Incorporation expense	10,393	10,393
	15,364,614	8,541,462
	\$68,906,906	\$38,602,475

(See accompanying notes)

LIABILITIES AND CAPITAL STOCK

	<u>1969</u>	<u>1968</u> (Restated)
CURRENT LIABILITIES:		
Bank overdraft	\$ —	\$ 481,793
Accounts payable and accrued liabilities	4,332,595	5,403,282
Notes and mortgages payable within one year	1,929	158,176
Total current liabilities	<u>4,334,524</u>	<u>6,043,251</u>
Secured notes and mortgages payable	138,839	983,757
Less amounts due within one year	1,929	158,176
	<u>136,910</u>	<u>825,581</u>
Deferred liabilities (Note 3)	<u>56,470,474</u>	<u>25,015,000</u>
 CAPITAL STOCK (Note 4):		
Shares without nominal or par value. Authorized 5,000,000 shares; issued 4,190,000 shares	<u>7,964,998</u>	<u>6,718,643</u>
 COMMITMENTS (Notes 1 and 5)		
	 <u><u>\$68,906,906</u></u>	 <u><u>\$38,602,475</u></u>

On behalf of the Board:

B. BRYNELSEN, Director.

R. V. PORRITT, Director.

financial statements.)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1969

1. REFUNDABLE POWER DEPOSIT:

Under an agreement with the British Columbia Hydro and Power Authority for the supply of electricity to the mine, the company has made deposits aggregating \$2,000,000. These deposits, bearing interest at 5%, are refundable in eight equal annual instalments commencing August 1, 1970. The company has contracted to pay at least \$500,000 for electricity in each of the eight years commencing January 1, 1970.

2. COST ALLOCATION:

Expenditures which have been included in either building and equipment costs or development and pre-production expenses are subject to re-allocation between these classifications on completion of the construction programme.

3. DEFERRED LIABILITIES:

Particulars of the deferred liabilities at December 31, 1969 are:

Bonds, repayable out of cash flow as defined:

7.5% first mortgage bonds, due June 30, 1973		\$21,000,000
7.3% second mortgage bonds, due five years from completion of construction (\$6,971,475 U.S. funds)	\$7,497,912	
Accrued interest	422,562	7,920,474
		<hr/>
7.2% secured income bonds, due December 31, 1977		27,500,000

56,420,474

Liability payable when the secured income bonds have been retired

50,000

\$56,470,474

Arrangements have been made for the issue of an additional \$4,000,000 7.0% first mortgage bonds to provide working capital.

The bonds are secured respectively by first, second and third fixed and floating charges on the assets of the company and the 7.0% first mortgage bonds are to be secured by an assignment of receivables and inventories.

As part consideration for the loans the company issued 1,780,000 fully paid non-assessable common shares (which are referred to in Note 4) at an ascribed value of \$4,895,000 which has been shown on the balance sheet as financing expense.

Noranda Mines Limited, or one of its subsidiaries is committed, until July 1, 1973, to purchase additional 7.2% secured income bonds up to a maximum of \$15,000,000 to provide any additional funds which may be required to complete the construction programme, and, as part consideration would receive four fully paid and non-assessable common shares for each \$100 provided.

Among other things, the trust deeds securing the bonds prohibit the payment of dividends until the bonds and accrued interest thereon have been paid in full.

4. CAPITAL STOCK:

Shares issued:

At December 31, 1968:

	Shares	Amount
For mining properties	749,980	\$ 149,996
For cash	1,660,020	2,920,002
For provision of finance (Note 3)	1,326,780	3,648,645
	<u>3,736,780</u>	<u>6,718,643</u>

During 1969:

For provision of finance at an ascribed value of \$2.75 a share (Note 3)	453,220	1,246,355
	<u>4,190,000</u>	<u>\$7,964,998</u>

5. COMMITMENTS:

Further expenditures amounting to approximately \$2,000,000 will be required to bring the mining property into production and commitments for this amount have been made.

6. ADMINISTRATION:

Salary paid to an officer who was also a director amounted to \$24,000.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Brenda Mines Ltd. as of December 31, 1969 and the statements of development and pre-production expenditure and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

No provision has been made in these financial statements for accrued interest at December 31, 1969 of \$2,699,068 on the 7.2% secured income bonds. The provision for 1969 would have amounted to \$1,970,817 and the financial statements have been restated to eliminate the provision of \$728,251 made for the previous year.

In our opinion, except for the matter referred to in the preceding paragraph, these financial statements present fairly the financial position of the company at December 31, 1969 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Vancouver, British Columbia,
January 30, 1970.

PEAT, MARWICK, MITCHELL & CO.,
Chartered Accountants.
